

Annual Report 2010



Public Utilities Commission of Sri Lanka

6th Floor, BOC Merchant Tower
St. Michael's Road, Colombo 3, Sri Lanka.

Vision and Mission

Our Vision

Create an environment for all inhabitants of Sri Lanka and the contributors to its development, to have access to essential infrastructure and utility services in the most economical manner within the boundaries of the sustainable development agenda of the country.

Our Mission

Regulate all the utilities within the purview of the Public Utilities Commission of Sri Lanka, to ensure safe, reliable and reasonably priced infrastructure services for existing as well as future consumers in the most equitable and sustainable manner.

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CORPORATE INFORMATION

Name of the Commission

Public Utilities Commission of Sri Lanka

Legal Status

Established by the Public Utilities Commission of Sri Lanka Act, No 35 of 2002

Commission Members during the year 2010

Dr. Jayatissa de Costa, P.C	Chairman
Dr. Bandula Perera	Deputy Chairman
Prof. Rahula Attalage	Member
Mr. Sanjaya Gamage (Attorney at-Law)	Member
Mr. Prasad Galhena	Member

Director General

Mr. Damitha Kumarasinghe

Secretary to the Commission

Mrs. Janaki M Vithanagama

Registered Office

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St. Michael's Road, Colombo 3,
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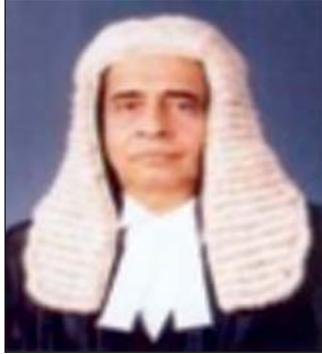
Auditors

Auditor General's Department
Independence Square, Colombo 07.

Banker

Bank of Ceylon
1st & 2nd Floor, BOC Merchant Tower,
No. 28, St. Michaels's Road,
Colombo.

Members of the Commission



Dr. Jayatissa De Costa, P.C
Chairman



Dr. Bandula Perera
Deputy Chairman



Professor Rahula Attalage
Member



Mr. Sanjaya Gamage
(Attorney at-Law)
Member



Mr. Prasad Galhena
Member

About the commission; it's objectives and functions.

The Public Utilities Commission of Sri Lanka (the Commission) established by the Public Utilities Commission of Sri Lanka Act, No 35 of 2002 (PUCSL Act) with the objective of regulating certain utilities industries pursuant to a coherent national policy. The Minister in-charge of Policy Development and implementation with the concurrence of the Constitutional Council appoints the five members of the Commission for a five year term. The members of the Commission are persons with ability and integrity and have shown capacity in addressing problems relating to engineering, law, economics, business management, accountancy or administration.

The Commission was empowered to regulate the electricity industry through the Sri Lanka Electricity Act, No: 20 of 2009. Hence the Commission currently acts as the economic, technical and safety regulator for the electricity industry in Sri Lanka.

In addition to the electricity industry, the Commission was recognized by the PUCSL Act as the sector regulator for water services industry in 2002 and petroleum industry in 2005. The Industrial Acts for water and petroleum industries are at the drafting stage.

At present the Commission acts as the shadow regulator in lubricant sector of the petroleum industry.

Objectives

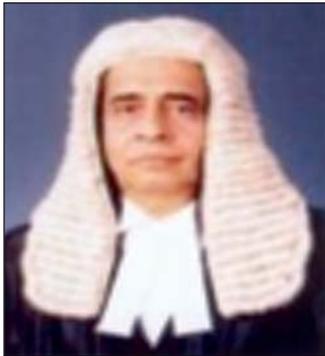
The objectives of the Commission are set out in the Section 14 (2) of the PUCSL Act. These objectives are identified below:

- Protect the interest of all consumers
- Promote competition
- Promote efficiency in both the operations of, and capital investment in, public utilities industries
- Promote an efficient allocation of resources in public utilities industries
- Promote safety and service quality in public utilities industries
- Benchmark, where feasible, the utilities' services as against international standards
- Ensure that price controlled entities acting efficiently; do not find it unduly difficult in financing their public utilities industries.

Functions

In meeting of the above mentioned objectives of the Commission Section 16 of the PUCSL Act identifies the functions of the Commission as follows;

1. Exercise, perform and discharge the powers, functions and duties assigned to the Commission by the Act;
2. Consult, to the extent the Commission considers appropriate, any person or group who or which may be affected, or likely to be affected by the decisions of the Commission;
3. Advise the government on all matters concerning any industry falling within the purview of the Commission;
4. Collect, record and disseminate information concerning any public utilities industry;
5. Prepare within six months of it being established a regulatory manual containing a code of good practice governing the functions of the Commission and revise it as and when necessary;
6. Exercise licensing, regulatory, and inspection functions in respect of all matters provided for in any industry Act;
7. Enforce the provisions of licenses, contracts, and other instruments issued under the authority of any industry Act;
8. Regulate tariffs and other charges levied by regulated entities where required;
9. Determine by mediation disputes arising in any public utilities industry;
10. Set and enforce technical and other standards relating to the safety, quality, continuity, and reliability of the public utilities industries;
11. Undertake such other incidental or ancillary activities for the effective discharge of any of its functions



Message from the **Chairman**

The year 2010, one of the most successful years of PUCSL after PUCSL commenced regulating the electricity industry and was one of nurturing and consolidating amidst challenges.

The Commission adopted an internationally accepted fair and transparent model procedure on setting up electricity tariffs in the last quarter of 2010, identifying and safeguarding the rights of all electricity consumers as well as the licensees while being obliged to adhere to the government policy on the determination of fair electricity prices. Public hearings were successfully conducted by the Commission on the tariff proposals published, and comments and suggestions submitted to the commission were discussed with the relevant state institutions which were immensely helpful in aiming at a final conclusion.

As PUCSL is vested with regulatory powers in the electricity industry and shadow regulatory powers in the lubricants industry, the commission understood its obligation on public awareness, and number of programs were undertaken to create public awareness among all the stakeholders of the industry.

With development of infrastructure, new recruitments were carried out in this year to

strengthen the capacity of the Commission and to facilitate a hybrid organizations structure while the professional development of existing staff was achieved through both local and international training programs.

The year 2011 would be critical to the Commission with the envisaged commencement of the regulatory activities in the downstream petroleum industry and with the continuation of the work commenced so far in the electricity industry which is to be sustained with a greater momentum.

I wish to thank the Members of the Commission, the relevant government organizations, the Consultants, Funding Agencies, last but not least the Director General and the staff for their untiring dedication and commitment towards establishing and strengthening the commission as the regulator for the designated infrastructure industries.



Dr. Jayatissa De Costa, P.C
Chairman



Director General's Review

We, Public Utilities Commission of Sri Lanka (PUCSL), have continued its important contributions to the progress of the Electricity industry and Lubricants sector of the petroleum industry under its purview during the year 2010.

The most significant contribution of the PUCSL during the year 2010 for the electricity industry was the design of tariff methodology. A Road-Map for tariff reform and rebalancing was prepared and approved with the objective of making all the licensees, Ceylon Electricity Board (CEB) and Lanka Electricity Company (Private) Limited (LECO) reach the breakeven by the year 2014 and reach profitability by the year 2015. This is important for the industry survival and the process of tariff determination was transparent and adopted internationally best practices to identify the efficient unit cost of service and developed a fair tariff methodology for the licensees while safeguarding the rights of all the electricity consumers of the country.

The Commission conducted a public hearing in determining the electricity tariff for the first time in the history.

Further, the Commission has developed and implemented initiatives in the electricity sector on consumer protection, access to electricity and affordability, network planning related rules and regulations during the year 2010.

The PUCSL, in 2010, continued its advisory role in the lubricants industry in the absence of a regulatory body amidst increasing liberalization of the lubricant market. PUCSL was involved in the lubricants market by way of selecting industry players, assisting with formulating and re-evaluating minimum standards, and driving the initiative to re-impose relevant standards. PUCSL was also involved in, albeit to a limited extent, formulating policy guidelines for the Petroleum Fuels market in the period under review.

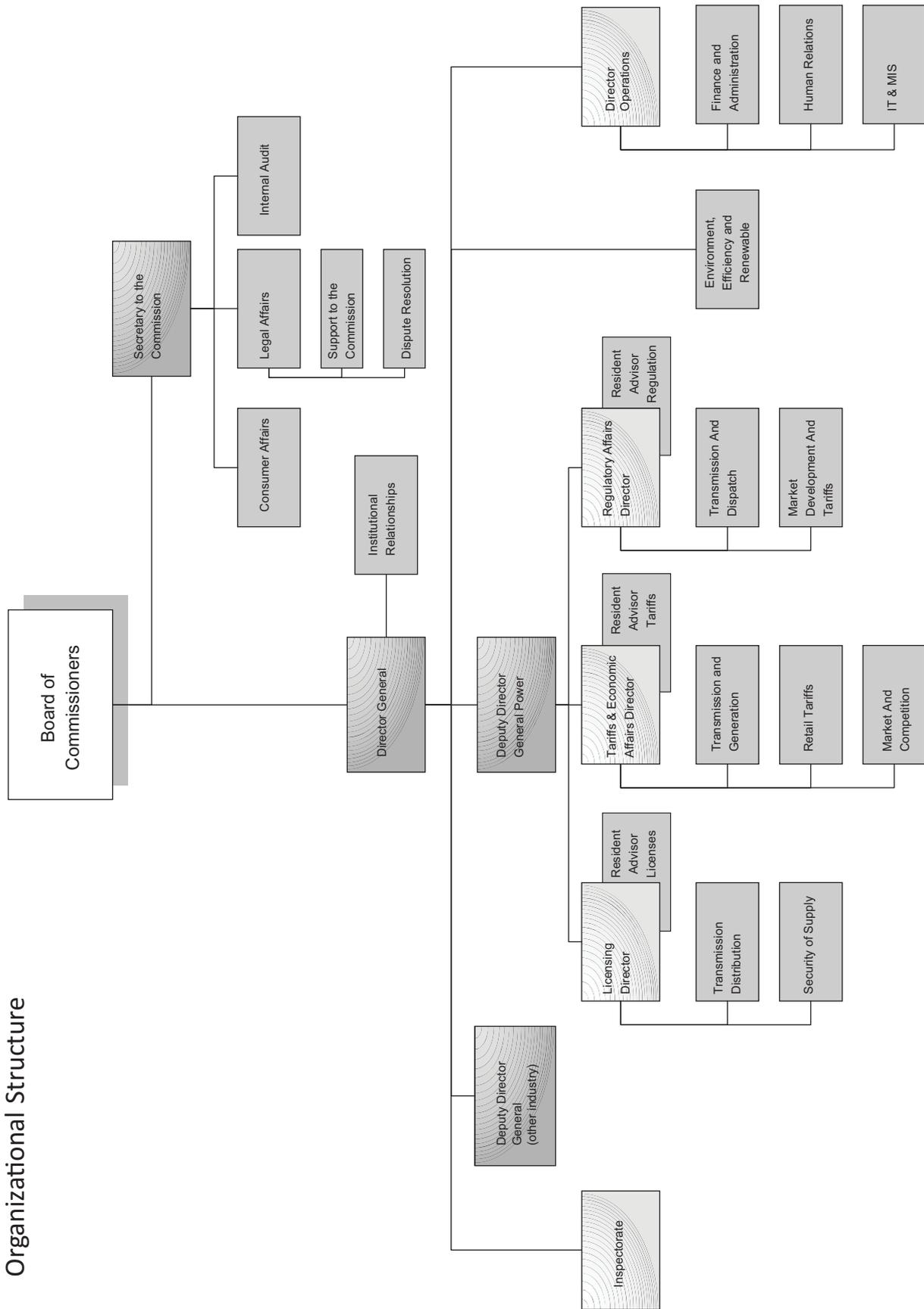
Further, I am delighted to inform stakeholders of electricity sector that the Commission has delivered the promises given to the nation through our annual publication "Outlook 2010" during the year under consideration.

I wish to thank the Chairman and the Members of the Commission, for their unequivocal support for the activities during the year and my special gratitude goes to the staff for their commitment and dedication in achieving the objectives of the Commission.

A handwritten signature in blue ink, appearing to read 'Damitha Kumarasinghe', written in a cursive style.

Damitha Kumarasinghe
Director General

Organizational Structure



Sector Overview

Electricity Industry

The electricity industry comprises of three (03) main areas: generation, transmission and distribution. The PUCSL has been empowered to act as the economic, technical and safety regulator of the electricity industry in Sri Lanka under the provisions in PUCSL act no 35 of 2002 and Sri Lanka Electricity Act no 20 of 2009. PUCSL has the sole authority to issue licenses to carryout generation, transmission and distribution activities in the country. In the year 2010, PUCSL has issued one (01) generation license, one (01) transmission license and four (04) distribution licenses to Ceylon Electricity Board (CEB). One (01) distribution license has been issued to Lanka Electricity Company (Private) Limited (LECO). Seventy Two (72) generation licenses have been issued to private power producers.

At present, 4.8 million of households (about 83%of the total) are provided with the electricity from the national grid. Approximately 85% of those electricity consumers are served by the four distribution licensees of CEB. The remaining consumers are served by LECO. Electricity demand in the country grows around 4% to 6% per annum.

The per capita electricity consumption of the country is 413 kWh in 2009.

It is estimated that the investment in the power system will enable over 95% of the population to have access to electricity from national Grid by 2012. The off grid electricity supply in rural areas comprises of approximately 120,000 solar home systems and 1600 kW community based power plants (mainly Micro-hydro). Thus, approximately three percent (3%) of the households use off-grid electricity. The transmission licensee of CEB exclusively owns and operates the transmission system. The generation licensee of CEB has produced 55% of the total energy requirement in the country. Independent power producers have produced the balance 45%. The share of grid connected renewable energy technologies (excluding large hydro) in total electricity production was approximately 5.5% in 2009.

The PUCSL is moving ahead with the regulatory activities in the electricity industry. In compliance with the 'General Policy Guidelines' issued to Public Utilities Commission of Sri Lanka by the Ministry of Power and Energy, PUCSL introduced New tariff setting and reviewing methodology. Accordingly new electricity tariff, was introduced with effect from 1st January 2011.

The tariff will be revised every six month considering cost changes in the industry.

The new tariff structure includes mandatory three – tier (3) Time-Of-Use tariffs for the large customers of industrial and hotel category. It is expected that the present tariff structure with twenty six (26) categories will be reduced to four (4) categories by the year 2015. Non-Conventional Renewable Energy (NCRE) tariff was revised followed by stakeholder consultations and a public hearing. Documents on Methodologies, Codes, Standards and Procedures have been initiated in consultation with stakeholders to regulate the industry in a transparent manner. Document on Rules on dispute resolution were initiated for mediating disputes in the emerging regulatory environment.

Electricity tariffs have the unique feature of affecting it across the society from poor households live in remote areas to the multinationals who manage their businesses on global context. Hence it was a challenging task to design the appropriate tariff level considering the interest of all stakeholders who are going to have impact from the Electricity Tariffs. Prior consultation is a remedial effort to lessen the adverse affects in case of public sector decision making Electricity Tariffs was traditionally decided by the state owned service provider until Public Utilities Commission of Sri Lanka (the Commission) get involves in the tariff design process in year 2010.

There was no incentive for operators themselves to scrutinize their own expenditures and give benefits to the consumer since they are operating under a monopolistic condition. In the absence of competitive elements in a network industry, regulator should create pressure to function the network operations efficiently.

The electricity tariffs determined by the Commission shall permit licensees to recover all reasonable costs incurred in carrying out the activities authorized by its license, be in accordance with policy guideline approved by the Cabinet of Ministers and consider the views expressed by all stakeholders on the proposed tariffs

It is expected that CEB which is a loss making organization at present can be converted to a profit making organization by 2015. The benefits of the regulated electricity industry will be enjoyed by all stakeholders.

According to the National Energy Policy & Strategies published by the government, it is expected to achieve a target of minimum level of 10% of electrical energy supplied through Non-Conventional Renewable Energy (NCRE) by year 2015. In view of achieving the said target purchasing price for NCRE is critical. The consultation documents on the revision of NCRE purchase tariff was published on 23rd August 2010 by the Commission.

Petroleum Industry

PUCSL plays a key advisory role in the downstream petroleum industry to the Ministry of Petroleum Industries on policy and regulatory issues, and a shadow regulatory function in the lubricants market, within the industry. It is seeking to extend its role to that of a full regulator addressing the issue of requiring urgent redress given that the current legal and regulatory framework does not effectively address the requirements of a liberalized industry, nor is conducive towards maintaining a level and just playing field.

Five main markets operate in Sri Lanka's downstream petroleum industry:

- Petroleum Fuels
- Aviation Fuels
- Marine Fuels (Bunkers)
- Lubricants
- Liquefied Petroleum Gas (LPG)

Industry players include the state-owned Ceylon Petroleum Corporation (CPC), as well as a number of private players, both local and international. PUCSL's role in each of these markets is varied, depending on ministry requirements as well as each market's level of liberalization.

Petroleum Fuels

Petroleum Fuels include petrol, diesel, kerosene, furnace oil, naphtha and other mineral petroleum (excluding aviation fuel, marine fuel and liquefied petroleum gas). The Petroleum Fuels market is partially liberalized, although participation is restricted to CPC, Lanka IOC PLC (LIOC) and Modern Petroleum Marketers Limited (MPML). In 2009, the shares in MPML formerly held by the Secretary to the Treasury were transferred to CPC. The shares in Ceylon Petroleum Storage Terminals Limited (CPSTL), which owns and operates the principal storage and distribution facilities, previously held by MPML were also transferred to CPC in 2009 (formerly equally owned by CPC, LIOC and MPML).

Petroleum fuel sales/consumption has increased at an average value of 2.7% over last five years from 2004. Total fuel consumption for 2009 was approximately 3.4 million metric tons. By end 2010, the CPC and its main competitor LIOC held 80% to 20% market share respectively of the retail market of petrol, diesel and kerosene.

Contribution in the year 2010

The year 2010, being the second since the Public Utilities Commission of Sri Lanka (PUCSL) commenced regulating the electricity industry, was one of nurturing and consolidating amidst challenges.

The PUCSL began the year with a technical assistance project funded by the Asian Development Bank to develop capacity for power sector regulation. The objective of this technical assistance was to put in place an effective institutional and regulatory framework in order to deliver affordable and reliable electricity to consumers.

This objective was partly achieved by better enabling both the PUCSL to implement provisions of Act, No. 20 of 2009, as well as the licensees, Ceylon Electricity Board (CEB) and the Lanka Electricity Company (Private) Limited (LECO), to comply with such provisions.

Of the works to be carried out under the said project over a two-year period, priority was given to tariff setting since it involves the industry's financial health and consumer protection thus being one of the most important activities of a regulator.

A five-year (variable revenue cap) cost-reflective tariff methodology for determining generation, transmission and distribution retail revenue requirement, in consultation with the Ministry of Power & Energy,

Ministry of Finance & Planning, CEB and LECO was formulated.

After having conducted an analysis of the cost of supply, projected sales, consumer groups and current level of cross-subsidies, a five-year road map for restructuring and rebalancing of retail tariffs was formulated in order to move such retail tariffs towards cost-reflectivity and the electricity sector to break-even status by 2014 as well as profitability by 2015.

A methodology for determining the charges that can be levied by Distribution Licensees for providing miscellaneous services to consumers under Act, No. 20 of 2009 was formulated

Retail tariffs were set for the year 2011, having reviewed the revenue requirements filed by the Transmission Licensee and Distribution Licensees, subsidy requirement as per Government policy as well as consulting stakeholders on same through a public hearing.

Other works commenced under the project include the development of a number of regulatory instruments i.e. regulations, rules, codes and guidelines etc., that are required to implement the provisions of Act, No. 20 of 2009, as well as processes and procedures necessary to carry out PUCSL's regulatory functions. These

include guidelines on generation dispatch system, least-cost generation expansion planning, distribution planning and transmission planning, which are necessary for the review of tariffs in 2011.

While the PUCSL equipped itself with the required regulatory tools and processes to fulfill its mandate of regulating the electricity industry, a number of programs were undertaken to create public awareness and to empower the consumers, including the establishment of the Consumer Consultative Committee, in order to create a better environment for regulation.

The establishment of Consumer Consultative Committee (CCC) was one of the targets the Commission achieved in year 2010. The CCC main objective is to represent interests of smaller consumers (both existing and potential) of regulated industries, and acts as a counterweight to the government, service providers, and larger consumers in advocating views presented before it.

The CCC met regularly in year 2010 at the PUCSL office to discuss activities to be carried out by them to safeguard interest of consumers. The CCC actively contributed for public consultations held on issues pertain to electricity consumers in year 2010. In order to safeguard interest of small consumers the CCC presented their comments and observations before the Commission at such public consultations.

The main purpose of establishing consumer network is to act as a forum in which consumers can share their views and

concerns, and through which obtain their participation in regulatory and policy matters. Since the CCC's main concern is to ensure that the consumers in more remote areas are given full opportunity to participate in its activities, having such a network would be more beneficial to all.

During the year, assistance was provided to the Ministry of Petroleum Industries to draft legislation required to empower the PUCSL as the regulator for the petroleum industry. Until the passage of such legislation in to law, the PUCSL acted as a shadow regulator. This is congruent with the PUCSL's objectives of advising and assisting the Government on policy and regulatory matters with a view to contribute towards the development of the petroleum industry.

Further, specific works carried out by the Commission in 2010 include

Electricity Industry

Regulation

- An analysis was carried out to quantify the amount of total subsidies provided to the industry and to identify the consumer groups who receive subsidies and provide cross subsidies. The Analysis document on subsidy requirement also comprises of the current practices in providing subsidies.
- Decision document on tariff setting and reviewing methodology which sets out the methodology for setting and reviewing electricity tariffs. The first ever revenue filing and approval process was

carried out as per such methodology for the period of 2011 to 2015

- Analysis document on consumer groups which contains criteria for efficient pricing and definition of tariff categories while analyzing the present consumer groups and related tariffs
- Decision document on cross subsidization which contains the draft decision on the Commission on 'Road Map for Rebalancing of subsidies and cross subsidies' which is used when developing the initial proposals for the tariff for the year 2011.
- Decision document on allowed charges which lays down basic principles and methodologies to be adopted by the licensees in estimating other charges levied for the provision of electricity service

Sustainable Energy Development

- Review of NCRE feed-in tariffs 2010 with a public consultation process on August 2010 and public hearing on October 2010 and the approved tariff was effective from 25th November 2010.

Safeguarding Consumers

- Establishment of Consumer Consultative Committee and its appointed members represented the consumers at the public consultations held on revision on NCRE tariff and electricity consumer tariffs for 2011

Access to Electricity and Affordability

- A research based Consultation document on Electricity requirement of prospective electricity consumers and poverty and affordability in order to finalize the policy recommendations on access to Electricity and affordability.

Planning Guidelines

- Guidelines on Generation Dispatch system, transmission licensee's least cost generation expansion planning, transmission planning and distribution planning drafts were finalized and discussions are ongoing with stakeholders for the final outcome

Safety

- Inspected at least 2 schools in each district for electricity safety and inspected 100 schools in 23 districts
- Electricity safety guidelines for schools , a draft is completed and forwarded to Ministry of Education for publication
- Investigations and reporting on electrocutions. Seventeen (17) incidents were investigated and prepared reports.
- Conducted three (03) Safety programs to increase the awareness on safety

Licensing

- License registry was prepared which is updated quarterly and available for public reference
- Examine the possibility/procedure from exemption of condominiums and industry parks from the requirement of obtaining a license and as a result exemptions are to be granted upon application
- Examine the possibility of exemption from open tender process under Sec.43 of SLEA and secretariat to continue the practice of processing all applications and granting licenses for generation projects overseeing the competitive tendering procedure
- Facilitate net metering arrangements upon application for exemption

Rules and Regulations

Completed the formation of following rules and regulations

- Regulations on functions and duties of the inspectorate
- Regulations of Electricity meters
- Sanctioning and prosecution procedure
- Regulations on safety standards
- Dispute resolution rules

Petroleum Industry

Shadow Regulation

- A report on Lubricant Market Performance in respect of year 2009 was published on PUCSL website
- An awareness campaign was carried out through newspaper notices on Lubricant market authorized parties/brands and minimum standards
- Completed a report on implementing the recommendation of the committee appointed to review the import framework.
- Revised draft amendments to the Act, No 33 of 2002 and Act, No 28 of 1961
- Renewal of existing Lubricant Agreements

The following work which was started in 2010 and still ongoing for 2011

- Report on the draft Sri Lanka standards for Four Stroke Motorcycle Engine Oil developed by the Sri Lanka Standards Institute (SLSI)
- Request for Qualifications (RFQ) guidelines for selection of suitable parties to import , export, sell, supply or distribute as well as blend and produce grease

Public/Stakeholder Relations

- Creation awareness of general public – banner campaign at all CEB and LECO regional offices
- Poster campaign at Grama Niladhari, Govijana Seva and Samurdhi Niladari offices

- Awareness program on PUCSL in line with World Consumer Rights Day on print and Electronic media

The upcoming year would be critical in the short history of the PUCSL with the envisaged commencement of regulatory activities in the petroleum industry and becoming a fully fledged multi-sector regulatory agency.

Proposed Activities for 2011

Electricity Industry

Ensure Efficient Pricing

- Study report for shifting of electricity consumption at system peak - The Commission aims to develop a plan where peak-time demand for electricity is distributed throughout the day, thereby reducing the cost incurred by utilities
- Report on existing energy consumption patterns of various electricity consumer groups - Through this report, the Commission will study existing energy consumption patterns among various electricity consumer groups in the country. The findings will help the Commission carry out the following:
 - o Take fair decisions on electricity tariffs.
 - o Provide sound advice on policy matters to the government.

Sustainable Energy Development

- Annual report on achievements of renewable energy targets - The Commission will carry out a progressive review of a national energy policy setting out renewable energy targets

- Consultation document on renewable energy strategy - This document details the strategy that will be used to achieve the above-mentioned renewable energy policy targets
- Document on framework for establishing appropriate tariff structures for renewable energy - This document will establish the procedure used to set tariff structures for renewable energy in a fair manner in order to encourage renewable energy developers

Secure Electricity Supply

- Document on Grid Code - This document will serve as a technical handbook for transmission utilities on how to build a long-term plan; design and erect transmission lines; system operations or schedule power plant operations; network maintenance, etc.
- Document on Distribution Code - This document will serve as a technical handbook for distribution utilities on how to build a long-term plan; design and erect distribution lines; system operations; network maintenance, etc

Public Safety

- Report on each licensee's compliance to supply and safety standards - The Commission aims to ensure all licensees comply with the stipulated supply and safety standards. It will conduct periodic visits to licensees to check adherence
- Report on awareness programs on the safe use of electricity - The Commission will conduct consumer awareness programs island-wide on the safe use of electricity
- Inspection report on electricity safety of identified major public places - Safe electrical installations at major public places are vital, since people gather everyday at such places. Therefore, the Commission will conduct periodic inspections at such places, inspect electricity safety, and recommend safety improvements.

Least-cost Electricity Generation

- Consultation document on transmission licensees' least-cost generation expansion plan. This document will review the methodologies adopted by transmission licensees with regard to their long-term generation plant-addition planning, demand and fuel price forecasting; technology/fuel selection; planning tools used; system reliability limits; and assumptions made.
- Decision document on transmission licensees' least-cost generation expansion plan - This document will

serve as a decision document of the above, and will be prepared after public consultation.

Electricity Access

- Consultation document on business model and regulated tariff methodology for off-grid electrification - This document will standardize the structure of off-grid electrification projects. Through the above standardization, off-grid consumer will have standard connection agreements, regularized tariffs, better quality service, and be better equipped to integrate in the event the national grid adopts off-grid schemes.

Regulatory Best Practices

- Decision document on regulatory performance indicators - This document will identify the results of the Commission's regulatory activities based on specific indicators
- Report on general policy guideline achievements - This report will identify the results/outcome of the government-issued policy guidelines to be followed by the Commission in the course of its regulatory activities

Public Awareness

- Document on public awareness strategy and plan - This document will be used to create public awareness on various issues.

- Survey report on consumer satisfaction of electricity supply - This document will help the Commission to ensure a smooth and uninterrupted supply to the public

Consumer Affairs

- Report on specifications of consumer complaints handling system. This report will document the function of the Commission's Consumer Complaints Handling Unit.
- Report on public consultation procedure - This report will document the function of the Commission's Public Consultation Procedure

Service Quality

- Drafting of performance standards regulation - This document will define the benchmark in service quality by distribution and transmission licensees. Service quality includes breakdown attendance, interruptions, power quality (voltage, frequency), provision of new supply connections, augmentations, etc.
- Formation of independent consumer network - The Commission will form this network so that consumers can share their views and concerns with each other and with the Consumer Consultative Committee, and through which they can participate in regulatory and policy matters.
- Inspection report on power quality - The Commission, through these inspection

reports, aims to ensure the consumer receives a proper supply of electricity at the right price

Petroleum Industry

Secure Supply of Petroleum Products

Licensing – Prepare Subsidiary Legislations

- Proscribed activities that require a license, authorization, or an exemption - The draft Industry Act specifies the activities that are regulated and cannot be undertaken without a license, an exemption from the requirement to obtain a license, or an authorization. Upon enactment of the Industry Act, the relevant Minister is required to specify (by Order published in the Gazette) the activities which require a license and those which require an authorization.
- Requirements a person/ body of persons must satisfy in order to be eligible to be granted a license, authorization, or an exemption - The proposed Industry Act requires the relevant Minister to specify the financial and technical capability an applicant must possess to carry out the activities detailed in the application
- Form of application for a license, authorization, or an exemption or extension of the same - The proposed Industry Act requires the relevant Minister to specify the form of an application.

- Fees that shall accompany an application and the fee to be charged for the grant of a license, authorization, exemption or extension of the same - The proposed Industry Act requires the relevant Minister to specify the fee that must accompany an application
- Documents and information that shall accompany an application - The proposed Industry Act requires the relevant Minister to specify documents/information that needs to be submitted along with the application

Draft Regulations, Specifying the Conditions under which a consumer may Transport and Store Petroleum Products for Personal Consumption

- The proposed Industry Act requires the Commission to state the conditions under which consumers are allowed to transport/store petroleum for personal use

- Draft the Licensing Templates and Procedures - The proposed Industry Act requires the Minister (on the recommendation of the Commission) to grant licenses, exemptions from the requirement of obtaining licenses, or authorization for parties to undertake the prescribed activities.

Ensure Efficient Pricing

- Specify price regulated petroleum products - The proposed Industry Act requires the Commission to prescribe which petroleum products are price-regulated
- Rules on procedure and methodology for price regulation of petroleum products - The proposed Industry Act requires the Commission to prescribe procedure for the review of retail prices of price-regulated petroleum products, if no such procedure is specified in a license, exemption or an authorization.

Auditor General's Report



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR-GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

EF/D/PUC/FA/2010

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

17 June 2011

The Chairman,
Public Utilities Commission of Sri Lanka

Report of the Auditor General on the Financial Statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2010 in terms of Section 14 (2) (c) the Finance Act, No. 38 of 1971

The audit of financial statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2010 was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 34 of the Public Utilities Commission of Sri Lanka Act, No. 35 of 2002 and Section 13 (1) of the Finance Act, No. 38 of 1971. My comments and observations which I consider should be published with the annual report of the Commission in terms of Section 14 (2) (c) of the Finance Act appear in this report. In addition to this, a detailed report in terms of Section 13 (7) (a) of the Finance Act had been submitted to the Chairman on 19 April 2011.

1:2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

1:3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitation of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2. Financial Statements

2:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Public Utilities Commission of Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 2:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Public Utilities Commission of Sri Lanka as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

2:2 Comments on Financial Statements

2:2:1 Unreconciled Control Accounts

The unidentified balance of Rs.56,064 brought forward from the year 2009 had not been identified and brought to account even during the year under review.

2:2:2 Non – compliance with Laws, Rules, Regulations and Management Decisions

Instances of non – compliance with the laws, rules, regulations and management decisions observed during the course of audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non - compliance
(a) Public Finance Circular No. 424 of 26 February 2007	Direct and internal telephone facilities had not been provided to the officers connecting the telephones of all Divisions to a single telephone system. Rentals had been paid separately for each telephone.
(b) Section 2:8:4 of the Procurement Guidelines of the Government – At least one number of the Technical Evaluation Committee should be a person outside the Procurement Entity, who is knowledgeable in the item of procurement.	The officers of the Commission only had been appointed to the Technical Evaluation Committee for the purchase of 02 motor vehicles and energy meters.

3. Financial and Operating Review

3:1 Financial Review

3:1:1 Financial Results

According to the financial statements presented, the operation of funds of the Commission during the year under review had resulted in an excess of income over the expenditure amounting to Rs.20,708,819 as compared with the corresponding excess of income over expenditure amounting to Rs.37,741,980 for the preceding year. The decrease of Rs.14,033,162 in the financial results as compared with the preceding year had been due to the decrease in the income and the increase in the other expenditure including personal emoluments, traveling expenses and contractual services.

3:2 Performance

The following matters were observed at a test check of the performance of the Public Utilities Commission of Sri Lanka for the year 2010.

- (a) Even though recurrent expenditure amounting to Rs.177,673,294 and capital expenditure amounting to Rs.29,283,689 had been incurred since the year 2004 up to date to function as the Regulator for the Electricity, Water and Petroleum Industries in terms of Section 14 (2) (1) of the Public Utilities Commission of Sri Lanka Act, No. 35 of 2002, the regulatory functions relating to the Electricity Industry are performed with effect from 08 April 2009 in accordance with the Sri Lanka Electricity Act, No. 20 of 2009. It had not been possible to perform the regulatory functions relating to the Water and Petroleum Industries (excluding Lubricants Industry) as the amendments to the respective Acts had not received the approval.
- (b) In terms of Section 9 of the Sri Lanka Electricity Act, No. 20 of 2009, licences for generation of electricity cannot be issued to companies registered under the Companies Act, No. 7 of 2007 without 50 per cent share capital participation by the Government. Even though licences have not issued up to date to 06 companies generating electricity exceeding 25 megawatts which are registered under the Companies Act without 50 per cent share capital participation by the Government, the electricity generated by those companies had been added to the electricity grid of Sri Lanka. The Director General had, by his letter dated 19 May 2011, informed the audit that it is not possible to issue licences to those institutions as they have not satisfied the requirements of Section 9 (1) of the Sri Lanka Electricity Act, No. 20 of 2009 and that the matter was referred to the Ministry of Power and Energy to make necessary provisions thereto.
- (c) Thirteen companies dealing in the Lubricants Industry had been registered in the year 2010 and out of that only 05 companies had carried out transactions exceeding Rs.1 million liable at 0.5 per cent variable registration on the invoice value. Accordingly, the Commission had received a sum of RS.18,114,029 up to 31 March 2011 from those 05 Companies as the variable registration fees.

3:3 Management Inefficiencies

- (a) Assets costing Rs.1,324,436 eliminated from the books as at 31 December 2009 and furniture and fixtures valued at Rs.83,344 eliminated from the books as at 31 December 2010 had not been disposed of appropriately.
- (b) An agreement had been entered into on 26 March 2006 for the maintenance of the Office of the Public Utilities Commission in level 6 of the building owned by

the Property Development and Management (Private) Company of the Bank of Ceylon. The following matters were observed in this connection.

Despite entering into a commitment through the agreement for taking on rent an area of 2,296.03 square feet from March 2006 to September 2009 and 3,822.23 square feet from September to November 2009 for the maintenance of the office of the Commission, rent amounting to Rs.151,161 in respect of 10 months from December 2009 to September 2010 had been paid for an additional floor area of 153 square feet without entering into an agreement. Further, an additional floor area of 2,407.88 square feet had been taken on rent for the period September 2010 to March 2012 and a sum of Rs.3,132,330 had been paid thereon for the period September 2010 to January 2011. Nevertheless, that additional floor area had not been made use of even up to 08 February 2011.

3:4 Audit and Management Committees

Audit and Management Committees had not been appointed in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003.

3:5 Budgetary Control

The following matters were observed at a test check of the budgetary control.

- (a) A sum of Rs.2,591,834 had been spent in excess of the provision made under 09 categories of expenditure.
- (b) A sum of Rs.1,747,526 had been spent under 05 categories of expenditure for which provision had not been made in the budget.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Commission from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Advances
- (c) Maintenance of Files on Procurement

H.A.S. Samaraweera
Acting Auditor General.

Responses to the Auditor General's Report



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இலங்கை பொதுப்பயன்பாடுகள் ஆணைக்குழு
PUBLIC UTILITIES COMMISSION OF SRI LANKA

Auditor General
Auditor General's Department
Colombo 01

Auditor General's Report in Terms of the Section 14(2) (c) of the Finance Act No.38 of 1971, on the Financial Statements of the Public Utility Commission of Sri Lanka for the Year Ended 31st December 2010

Our opinions on your observations indicated in your report numbered EF/D/PUC/PC/S/A/2010 sent on 09th May 2011 to us are as follows:

2.2 Comments on Financial Statements

2.2.1 Unreconciled Control Accounts

This is an amount which has been allocated to pay for the licensees. Necessary arrangements have been made by our Institution for accounting the relevant fund properly within the year 2011.

2.2.2 Non-compliance to the Laws, Regulations & Management Decisions

- (a) Actions are being taken to maintain the telephone expenses properly in accordance with the relevant circular & Commission's decisions.
- (b) From year 2011, provisions are being made to perform according to these relevant laws & regulations.

3.2 Performance

- (a) Drafting relevant amendments to the Ceylon Petroleum Corporation Act No.28 of 1961 and to the Petroleum Production (Special Provision) bill No.33 of 2002, and making arrangements to obtain the approvals from the Cabinet of Ministers and Parliament Consultative Committee.

By submitting the amendments done from time to time to the Department of Legal Draftsman for tabling this revised bill in Parliament within year 2011, and further provision will be made on the expectation of necessary approval for such amendments.

- (b) Since requirements are not fulfilled by the relevant institution as per the section 9(1) of the Electricity Act No.20 of 2009, our Commission is unable to issue licenses. Hence, a letter requesting the Ministry of Power & Energy to make relevant provisions to that has been sent to it. Further relevant institution has also been informed in writing about the inability of issuing licenses.
- (c) Invoice values have been called from the lubricant Companies engaged in lubricant oil marketing within year 2010. Accordingly only 05 companies were to pay registration fees to the Commission. The fees to be paid by those companies have been received correctly.

3.3 Management Inefficiencies

- (a) A Commission paper No.2011/100/OPE/01 has been submitted in order to auction or destroy all the assets disposed within year 2009 and 2010. Arrangements have been made to auction or destroy all such assets disposed so within coming months after receiving approval for that purpose.
- (b) After the agreement signed by BOC Property Development & Management Ltd in December 2009, the contractors who undertook internal partitioning & designing works of the portion additionally taken by our institution assigned such works to us. When such works were being done, it happened to cover the construction work of 153 square feet which was not included in such agreement, however construction has been completed.

But, the BOC Property Development & Management Ltd has informed us that it would charge for that of 153 square feet. The relevant letter pertaining to it, and the copy of the plan which indicates relevant extent of land were submitted for audit.

Commission's activities of year 2010 and relevant subject matter were expanded. Under "Capacity Building Project for Power Sector – funded by ADB", our institution has been given priority. Accordingly, when comparing year 2010, we have to show more performance in 2011. Therefore recruitment has been done in November, December of 2010 and in January of 2011. Beside this, an executive committee room with space facilities is needed for our institution. From year 2011, further arrangements are being made by our institution for preparing the relevant bill which suits to the petroleum sector. Therefore necessary arrangements are being made to hand over the works related to the space acquired on rental basis and to complete it subject to the relevant laws & regulations (As per procurement guidelines). However this space facility is temporarily utilized for the purposes of conducting institutional meetings and other official purpose by setting office equipments. This arrangement has contributed to reduce the expenditure for conducting meetings in other institutions.

Moreover, the bill relevant to petroleum sector was not passed and offered to our institution as necessary within the first month in 2011. Due to this reason, it has been decided to run the Commission in the same space where it had stood. From March 2011, newly taken space was given back to the BOC Property Development & Management Ltd.

3.4 Audit and Management Committees

Chairman, Vice chairman and Director General of the Commission have been appointed as members of the Internal Audit Committee on a Commission paper No.PUC/2010/84/03 as per the 7.4.1 of the Public Enterprises Department Circular No. PED12. Since an Internal Auditor is not available in the Commission, a Commission paper indicating necessary basic facts for putting the above Committee in action was tabled on 27.01.2011, and rapid actions are being taken to activate the Internal Audit Committee as per the approval of such Commission paper.

3.5 Budgetary Control

- (i) Transferring funds from other financial provision (Welfare) has been done for capital expenditure like purchasing of vehicles, and approval (Commission paper No. 2010/90/FIN/01) has been obtained from the Commission for it. This is a carried forward item from other sub payment expenditure heads under the main expenditure head. Payment has not been made exceeding the provision allocated for this main expenditure head.
- (ii) Rs.1, 750,000/- has been transferred from the provision for consultancy by a Commission paper No.2010/90/FIN/01 for Rs. 1, 405,395/- of medical expenses. This is a carried forward item which is brought under the expenditure heads like committee expenses, web development expenses, ornamental and other expenses and contract payment expenses etc. Payment has not been made exceeding the provision allocated for expenditure in respect of contract.

4. Systems & Control

Necessary arrangements have been made to perform as per the relevant laws & regulations by drawing attention on the areas shown in audit.

Considering our replies for your observations, you are kindly requested to make arrangements be reached Auditor General's report to us by doing further correction to the above para.



Damitha Kumarasinghe
Director General

Financial Review

Balance Sheet

As at 31st December		2010		2009	
	Notes	Rs.	Cts.	Rs.	Cts.
Assets					
Non current assets					
Property Plants & Equipment	25	19,331,457.48		10,735,171.15	
Current Assets:					
Investment	16	37,478,838.88		30,212,671.23	
Inventories		120,414.39		91,604.99	
Rental Deposit	17	828,070.80		826,570.80	
Fees Receivable	18	8,972,621.23		6,561,807.57	
Advances & Pre Payment	19	1,277,655.30		1,094,954.10	
Interest Receivable	20	245,024.00		557,990.22	
Festival Advance		6,000.00		8,000.00	
Cash Balance		4,481,171.41		2,057,743.35	
		53,409,796.01		41,411,342.26	
Total Assets		72,741,253.49		52,146,513.41	
Funds & Liabilities					
Funds					
Accumulated Fund	21	64,544,413.64		43,818,849.22	
Revaluation Reserves	22	2,833,933.83		3,422,785.78	
Reserves / FSD		1,500,000.00		1,500,000.00	
		68,878,347.47		48,741,635.00	
Non Current Liabilities					
Provision for Gratiuty		1,831,400.00		1,062,000.00	
Current Liabilities					
Payable Accounts	23	1,875,442.25		2,216,921.41	
Auditor General's Fees	24	100,000.00		125,957.00	
Refund ARL		56,063.77			
Total Liabilities		2,031,506.02		2,342,878.41	
		72,741,253.49		52,146,513.41	



Damitha Kumarasinghe
Director General



Dr. Jayatissa De Costa
Chairman

Income Statement

<i>For the Year Ended 31st December</i>		<i>2010</i>	<i>2009</i>
	Notes	Rs. Cts.	Rs. Cts.
Revenue			
Treasury Fund	1	0.00	3,800,000.00
Variable Registration Fees	2	18,114,029.23	12,182,389.86
Annual Regulatory Levies	3	55,586,000.00	46,062,743.77
Licences Application Fees	4	540,000.00	1,200,000.00
Public Contribution	5	-	911,307.00
Other Income	6	2,543,668.81	1,352,572.31
		76,783,698.04	65,509,012.94
Expenses			
Personal Emoluments	7	19,407,111.65	14,327,555.00
Retirement Benefits	8	2,541,588.47	1,647,846.94
Overseas & Local Traveling Allowance	9	2,149,981.38	331,352.12
Consumable Materials	10	1,700,775.16	1,278,896.58
Contractual Services	11	21,650,599.77	10,627,544.72
Training and Other Services	12	3,992,945.72	769,131.65
Repairs & Maintenance of Capital Assets	13	289,405.95	169,202.34
Finance Cost			6,255.00
Identified Loss	14	8,134.17	53,849.57
		(51,740,542.27)	(29,211,633.92)
Operating Surplus		25,043,155.77	36,297,379.02
Provision -Depreciation	25	3,549,191.35	493,398.67
-Provision for Gratuity		769,400.00	1,062,000.00
		(4,322,388.06)	(1,555,398.67)
		20,724,564.42	34,741,980.35
Prior year Adjustment	15	1,000.00	0.00
Surplus/ Deficit for the year		20,725,564.42	34,741,980.35

Cash Flow Statement

For the Year Ended 31st December	2010	2009
Cash generated from the operational activities		
Operational Surplus / (Deficit) in the year	20,725,564.42	34,741,980.35
Adjusted for		
Depreciation	3,549,191.35	493,398.67
Provision for Gratuity	769,400.00	1,062,000.00
Bank Interest Received	(2,522,686.61)	(1,328,668.71)
Adjustment to Prior Year Period	-	-
Finance Cost	3,750.00	6,255.00
Losses	-	-
	<u>22,525,219.16</u>	<u>34,974,965.31</u>
Changing Working Capital		
Increase / Decrease in Inventories	(28,809.40)	(59,077.09)
Increase / Decrease in Debtors	(2,280,048.64)	(2,262,172.44)
increase / Decrease in Payable	<u>(311,372.39)</u>	<u>2,048,507.47</u>
	(2,620,230.43)	(272,742.06)
Cash Generated from / (Used in) Operational Activities	19,904,988.73	34,702,223.25
Cash Flow from the Investing Activities		
Finance cost	(3,750.00)	(6,255.00)
Increase / Decrease in Reserves	-	-
Purchase of Fixed Asset	(12,734,329.63)	(6,797,280.10)
Interest Received	2,522,686.61	1,328,668.71
Invested in fixed deposits	<u>(7,266,167.65)</u>	<u>(27,212,671.23)</u>
	(17,481,560.67)	(32,687,537.62)
Net Cash Flow from (Used in) Operational Activities	2,423,428.06	2,014,685.63
Less: Cash and Cash Equivalent at the Beginning of the Year	<u>2,057,743.35</u>	<u>43,057.72</u>
Cash and Cash Equivalent at the End of the Year	<u>4,481,171.41</u>	<u>2,057,743.35</u>
Cash and Cash Equivalents, Cash in Hand & at Bank	<u>4,481,171.41</u>	<u>2,057,743.35</u>

Statement of changes in net Assets

For the Year Ended 31st December

2010

	Accumulated fund	Reserves	Revaluation reserves	Total
Balance as at 01.01.10	43,818,849.22	1,500,000.00	3,422,785.78	48,741,635.00
Balance as at 1st January 2010	43,818,849.22	1,500,000.00	3,422,785.78	48,741,635.00
Surplus / (Deficit) in the income statement	20,725,564.42			20,725,564.42
Less :Transfer			(588,851.95)	(588,851.95)
Balance as at 31st December 2010	64,544,413.64	1,500,000.00	2,833,933.83	68,878,347.47

General Accounting policies

01 General

The Public Utilities Commission of Sri Lanka (PUCSL) was established to regulate certain utility industries pursuant to a coherent national policy.

In line with the above policy, with the enactment of Sri Lanka Electricity Act No: 20 of 2009 PUCSL was fully empowered to regulate the electricity industry in Sri Lanka.

02 Basis of Preparation

2.1 The financial statements have been prepared in accordance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants Sri Lanka, the requirements of Public Utilities Commission of Sri Lanka Act No: 35 of 2002 and the Sri Lanka Accounting and Auditing Standards' Act No: 15 of 1995.

2.2 The financial statements of Public Utilities Commission are prepared under the historical cost convention.

2.3 Financial period

The financial year of the commission shall be the calendar year.

03 Adoption of new and revised Sri Lanka Accounting standards during the year

The Commission has adopted the following new and revised Sri Lanka Accounting Standard (SLAS) that are effective in the current financial year and accounting policies of the Commission have been revised where relevant, to reflect the revision of these SLAS.

The adoption of the new and revised standards has resulted to changes to the method of presentation and additional disclosures being made in the financial statements

The following are the new and revised SLAS that are relevant to the Commission.

SLAS 3 (Revised) Presentation of Financial Statements

SLAS 5 (Revised) Inventories

SLAS 10 Accounting Policies, Changes in Accounting Estimate and errors

SLAS 12 (Revised) Events after the Balance Sheet date

SLAS 18 (Revised) Property, Plant and Equipment

SLAS 22 Accounting for Investment

SLAS 24 Accounting for Government Grants and Disclosure of Government Assistance

SLAS 29 Revenue

SLAS 30 Related Party Disclosures

SLAS 42 Accounting and Reporting by Retirement Benefits Plans

04 Comparative Information

The Accounting Policies applied by the Commission are, unless otherwise stated, consistent with those used in the previous year. Previous year's figures and phrases have been rearranged, wherever necessary, to confirm to the current year's presentation.

05 Events after the Balance Sheet Date

All material post balance sheet events have been considered and appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

06 Valuation of Assets and Their Bases of Measurement

6.1 Property Plant & Equipment

The Property Plant & equipment are recorded at cost/less accumulated depreciation and revaluation gain and losses as set out herewith.

The cost of property plant and equipment is the cost of purchase or construction together with any expenses incurred in the bringing the assets to its working condition for its intended use.

6.2 Revaluation of Property plant and Equipment

A Committee was appointed by Director General to revalued the property plant and equipment. In this process, there is no evidence of market value for consideration

of fair value. Hence of, they are valued at their annual depreciated cost. The revaluation of assets is effect from the date of 31st December 2009.

During the year under review value of certain computer equipments have been adjusted (devalued) taking into consideration of their operational capacity. The life cycle is more than 7 years for the selected computer equipments. Hence these computer equipments cause less performance, very low level of efficiency, high cost of maintenance, increasing of troubleshooting time. Accordingly revaluation reserve has been adjusted based on the net effect of the same.

When an asset is revalued, any increase in value is credited to revaluation reserve, and any decrease in value is directly offset against the surplus in the revaluation reserve.

Free Used Assets

Commission has obtained the Stamp franker machine from the Department of Postal as free of charge. Commission has spent its service charge and the same amount was charged to vote of maintenance of equipments. Further the Commission has considered this property as owned by the Department of Postal. Therefore it could not be treated as an asset of PUCSL.

6.3 Depreciation

Provision for depreciation is calculated by using a straight-line on the cost of property plant and equipment, other than revalued property plant and equipment on the 31st December 2010.

The depreciation rates of the assets are as follows:

1. Furniture and Fixtures	20%
2. Computer and Office Equipment	20%
3. Vehicles	20%

The calculation of depreciation is applied from the date of purchase of property plant and equipment in the current year.

The revalued assets during the year 2009, have been decided to depreciate within the next immediate years taking the following rate as the base in computing the depreciation.

Furniture and Fixtures	20%
Computer and Office Equipment	50%

The useful lives, residual values and depreciation methods of assets are reviewed and revalued if required, at the end of the each financial year.

07. Inventories

Inventories are valued at the lower of cost. The cost of each category of inventory is determined on the following basis.

Stationary - at purchase price.

08 Investments

Commission has invested its surplus income for the year 2010 in Bank of Ceylon as fixed deposits, called deposits and Treasury Bills with the concurrence of the Ministry of Finance to maximize return to the Commission.

09 Receivable

Receivable are stated at the amounts they are estimated to realize. No provision is being made for bad or doubtful debts.

10 Advances & Prepayments

Advance account includes a part of the premium paid to the Sri Lanka Insurance Corporation for the Medical Insurance for the staff. As the policy is effective up to 30th September 2011, it is required to treat the premium paid in proportionate basis.

11 Cash and cash Equivalents

Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand.

12 Liabilities and Provisions

Liabilities classified as current liabilities in the balance sheet are those obligations payable on demand or within one year from the balance sheet date. Liabilities classified, as non-current liabilities are those obligations, which expire beyond the period of one year from the Balance sheet date.

13 Fund for Sector Development

The Commission decided to establish a separate fund known as Fund for Sector Development and Staff Welfare exclusively for the consumer education and build up the capacity of the staff of PUCSL and to provide a health insurance scheme. However, the Treasury directed the

Commission that any scheme should be implemented using the income derived from the regulatory levies. The approval was granted to maintain a fixed deposit of Rs:1.5 million.

However since October 2010, The Commission has taken an Health Insurance Policy from Sri Lanka Insurance Corporation for a period of one year. Therefore, it is decided to maintain the Fund as it is to use in the training needs to enhance the Sector Development in the future.

14 Retirement Benefit Plan-Gratuity.

14.1 Full provision has been made on account of retiring gratuity after completion of a year of service of an employee according to a policy decision of the Commission, in conformity with the Sri Lanka Accounting Standard No. 42 – ‘Retirement benefit cost’ At half month’s salary for each year of service from the date of commencement of service.

According to payment of gratuity Act No.12 of 1983, the liability for gratuity to an employee arises only on completion of one year of continued service with the Commission. Therefore, Gratuity Provision has been provided in accordance with the Gratuity Act.

The provision for liability is externally invested after Balance sheet date

14.2 Employee Provident Fund and Employee trust Fund

Contributions were made in line with respective statutes and regulations in respect of all eligible employees.

15 Payables

Payables are stated at their cost.

Income Statement

16 Revenue Recognition

16.1 Variable Registration (License) Fees

In term of the clause 2 of the “Lubricant Agreement” executed with the Government of Sri Lanka, the lubricant market participants are required to pay bi-annually a fixed and a variable registration fee equivalent to sum of rupees One Million of 0.5% of total invoiced sales for the period (whichever is higher), subject to a maximum of rupees five million. In the event 0.5% of a market participant’s total invoiced sales for a bi-annual period being greater than rupees one million, such additional amount is to be paid to the Public Utilities Commission, within 30 days of the end of the period.

16.3 Annual Levy

According to Section 46 of Sri Lanka Electricity Act, No.20 of 2009, Commission empowered to impose an annual regulatory levy and it’s to be recovered from every licensee before the thirtieth day of June of that year. This Act was certified on 8th April 2009 and implemented by the Commission from that date. However the Commission

was able to collect levies from all licensees before 15th of November 2010 for the commencing year.

16.4 Licenses Application Fees

In addition to the imposed the levies, according to Section 11 of the Sri Lanka Electricity Act, the Commission is empowered to collect the application processing fee with the license applications for licenses generate, transmit or distribute the electricity.

16.5 Interest Income

Interest income was calculated on accrued basis. Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Commission. Therefore net interest income shown in the financial statements after deducting 10% withholding tax as final tax according to Section 133 (1) of Act No:10 of Inland Revenue Act 2006.

16.6 Government Grants

As the Commission has decided to cover estimated expenditure in pursuance of own income from June 2009 there were no government grants received during the year under review.

17 Expenditure Recognition

Expenses are recognized in the income statement on the budgetary allocation approved by the Commission.

18 Other Information

The Commission has requested the Honorable Minister of Plan and Implementation to seek the approval of Cabinet to exempt Public Utilities Commission of Sri Lanka from income tax on revenue according to Section 7 (a) of No 10 of Inland Revenue Act 2006. A decision has not yet been received from the Department of Inland Revenue in this regard. Therefore a contingent liability exists as at the balance sheet date. As the probability of getting the exemption is high due to the nature of the Commission's objectives and activities, a provision has not been made with regard to the pending income tax liability.

Name	Position	Other Positions	Related Party Relationships as described in line with Sri Lanka Accounting Standard 30
Dr. H.J.D. Costa, PC	Chairman	Member, Board of Governors, LKIIRSS	Non related
Dr. C.T.S.B. Perera	Deputy Chairman	1. Managing Director- Samson Rajarata Tiles Ltd (Member of DSI Samson Group) 2. Director- Kelani Cables PLC 3. Director- Piramal Glass (Ceylon) PLC 4. Director- Dankotuwa Porcelain PLC 5. Commission Member- National Science & Technology Commission 6. Board Member – Industrial Technology Institute 7. Board Member- Japan Lanka Business Development Centre	Non related Non related Non related Non related Non related Non related
Prof. Rahula Attalage PhD	Member of the Commission	1. Professor of Mechanical Engineering – University of Moratuwa 2. Director- Enertab (Pvt) Ltd 3. Director- Environ (Pvt) Ltd	Non- related Non- related Non- related
Mr. Sanjaya Gamage Attorney-at-Law	Member of the Commission		
Mr. Prasad Galhena B.Com/MBA/FCMA	Member of the Commission	1. Chairman, Ceylon Shipping Corporation Ltd 2. Chairman, Sri Lanka Handicrafts Ltd	Non- related Non related

Notes to the Financial Statements

	2010	2009
	Rs. Cts.	Rs. Cts.
01. Treasury Fund		
Recurrent	-	3,300,000.00
Capital	-	500,000.00
	-	3,800,000.00
02. Veriyable Registration fees		
Lanka IOC Ltd	4,189,030.84	3,037,173.31
Cheveron Lubricant Lanka	8,000,000.00	8,000,000.00
Mclarens Lubricant	1,449,096.00	1,048,887.00
Ceylon Petroleum Corporation	4,100,979.87	96,329.55
Laugfs	374,922.52	0.00
	18,114,029.23	12,182,389.86
03. Annual Regulatory Levies	55,586,000.00	46,062,743.77
	55,586,000.00	46,062,743.77
04. Licences Application Fees	540,000.00	1,200,000.00
	540,000.00	1,200,000.00
05. Public Contribution		
Save the Children Fund	-	911,307.00
	-	911,307.00
06. Other Income		
Interest	2,631,046.29	1,500,719.92
Less - Withhold Tax	(95,410.68)	(172,051.21)
	2,535,635.61	1,328,668.71
Sundry Income	8,033.20	23,903.60
	2,543,668.81	1,352,572.31
07. Personel Emoluments		
Commissioners Remu:	1,845,000.00	1,768,000.00
Salaries	16,998,923.12	11,038,146.23
Consultancy	230,000.00	1,425,080.65
Over-time	333,188.53	96,328.12
	19,407,111.65	14,327,555.00
08. Retirement benefits		
Contribution for University Provident Fund	-	252,000.00
Contribution for Employee Provident Fund	2,033,270.77	1,066,277.55
Contribution for Employee Trust Fund	508,317.70	329,569.39
	2,541,588.47	1,647,846.94
09. Overseas & Local Traveling Expenses		
Overseas Training	374,306.77	0.00
Foreign Traveling Expenses	652,444.00	47,856.00
Incidental / perdiun	557,258.11	181,143.62
Travelling (Local)	565,972.50	102,352.50
	2,149,981.38	331,352.12
11	2,149,981.38	331,352.12

Notes to the Financial Statements contd.

	Rs. Cts.	Rs. Cts.
10. Consumable Materials		
Stationary	654,167.79	387,617.74
Fuel & Parking	733,951.35	724,706.62
Consumable Material	80,335.87	65,147.56
Entertainment	227,629.55	125,134.25
Other Expenses	33,500.00	35,367.50
	<u>1,729,584.56</u>	<u>1,337,973.67</u>
Stationary- Opening Stock at 01-01-2009	91,604.99	32,527.90
Stationary - Closing stock at 31-12-2009	(120,414.39)	(91,604.99)
	<u>1,700,775.16</u>	<u>1,278,896.58</u>
11. Contractual Services		
Transport & Hiring of Vehicle	4,177,480.44	2,839,262.87
Communication including Newspapers & Postal	1,970,489.76	1,364,226.09
Printing & Advertising	4,633,062.14	1,577,406.70
Survey	2,000,905.00	-
Rents and Rates for Building	5,967,814.10	3,514,056.70
Electricity	407,928.43	335,258.79
Medical	1,405,394.92	-
Water	179,655.28	67,777.24
Insurance	187,801.64	56,423.98
Subscription	359,600.00	5,600.00
Janitorial Services	276,234.84	258,977.25
Legal & Investigation Fees	48,600.00	575,000.00
Sundry Expenses plus Other	35,633.22	33,555.10
	<u>21,650,599.77</u>	<u>10,627,544.72</u>
12. Training & Other services		
Training Expenses	305,691.34	53,480.00
Public Awareness Cost	2,757,123.38	358,837.50
Web Site Development	5,000.00	
Auditor General's Fees	142,580.00	50,000.00
Welfare & Public Relations	178,611.00	111,284.15
Floral Arrangements	16,500.00	
Consumer Consultative Committee Expenses	285,000.00	0.00
Others (Translation Fees)	302,440.00	195,530.00
	<u>3,992,945.72</u>	<u>769,131.65</u>
13. Repair & Maintenance of Capital asset		
Maintenance of Fixed Assets	193,131.35	169,202.34
Maintenance of Office Building	42,132.00	
Maintenance of Office Equipment	54,142.60	
	<u>289,405.95</u>	<u>169,202.34</u>

Notes to the Financial Statements contd.

	Rs. Cts.	Rs. Cts.
14. Identified Loss		
Foreign Travel	-	15,100.00
Bank Charges	3,750.00	
Insurance	-	2,600.00
Surcharge	2,889.67	
On Advance - loss	1,494.50	36,149.57
Net Loss	8,134.17	53,849.57
15. Previous Year Adjustment		
Exemption Fee	1,000.00	
	1,000.00	0.00
16. Invesments		
Fiexd Deposit	37,478,838.88	28,000,000.00
Reinvestment of Interest		212,671.23
7 Day Call Deposit	-	2,000,000.00
	37,478,838.88	30,212,671.23
17. Rental Deposit		
Deposit A/c	1,500.00	0.00
BOC Property Development Ltd	826,570.80	826,570.80
	828,070.80	826,570.80
18. Fees Receivable		
Chevron Lubricant Ltd	4,000,000.00	4,000,000.00
Lanka IOC Ltd	2,249,865.71	1,801,942.72
Mclarans Lubricant	444,385.00	748,358.00
Ceylon Petroleum Corporation	1,903,448.00	
Laugfs	374,922.52	
Annual Regulatory Levies		11,506.85
	8,972,621.23	6,561,807.57
19. Advance & Pre Payment		
Advances	1,206,951.30	1,069,077.10
Postal Dept	50,000.00	25,877.00
Service Agreement	20,704.00	
	1,277,655.30	1,094,954.10
20. Interest receivable		
7 Day Call Diposits	-	70,421.93
Fixd Deposits	245,024.00	487,568.29
	245,024.00	557,990.22
21. Accumulated Fund		
Balance at 1st January 2010	43,818,849.22	9,076,868.87
Surplus / Deficit for Year 2010	20,725,564.42	34,741,980.35
	64,544,413.64	43,818,849.22

Notes to the Financial Statements contd.

	Rs. Cts.	Rs. Cts.
22. Revaluation Reserves		
Increased Value	3,422,785.78	3,426,405.78
Decrease Value	(588,851.95)	(3,620.00)
	<u>2,833,933.83</u>	<u>3,422,785.78</u>
23. Account Payable		
Balance Remaining for SAFIR 2009 Subscription Fee	366,925.51	-
SAFIR 2010 Subscription Fee	354,000.00	-
Stamp Duty	-	3,525.00
Advertising	424,794.06	570,000.00
Communication	352,154.20	154,142.67
Fixed Assets	-	24,150.00
Fuel	-	7,540.00
Legal & Investigation	-	500,000.00
Medical	-	2,326.10
News Papers	17,410.00	2,080.00
Others	29,582.75	20,380.00
Overtime	-	13,500.00
Stationary	19,154.63	18,999.99
Translation	6,020.00	860.00
Transport	10,080.16	92,844.18
Travelling	127,160.00	7,837.50
Welfare	13,599.00	7,750.00
Handycraft Board	-	678,596.80
Water	50,111.94	4,321.74
Electricity	-	24,702.02
Drinking Water	-	3,391.56
Floral Arrangement	1,375.00	-
Withholding Tax	-	6,856.16
Consultancy	100,000.00	-
Janitorial Services	-	17,053.22
Stamp Duty Payable	3,075.00	-
Refund -ARL	-	56,064.47
	<u>1,875,442.25</u>	<u>2,216,921.41</u>
24. Auditor General's Fees		
Exemption fee	-	1,000.00
Balance B/F	-	75,957.00
Provision for 2010/2009	100,000.00	50,000.00
14	<u>100,000.00</u>	<u>126,957.00</u>

Note 25
As at 31st December 2010
Property Plants & Equipments

	Furniture & Fixtures		Computer & Office Equipments		Vehicles		Tools		Total	
	Rs.	Cts.	Rs.	Cts.	Rs.	Cts.	Rs.	Cts.	Rs.	Cts.
As at Beginning of the year	9,959,623.74		9,119,692.30		24,150.00		24,150.00		19,107,086.04	
Additions During the year	415,469.63		3,732,800.00		8,586,060.00				12,734,329.63	
Disposals During the year	(83,343.62)		0.00		-		-		(83,343.62)	
Less: Revaluation			(588,851.95)						(588,851.95)	
As at End of the Year	10,291,749.75		12,263,640.35		8,586,060.00		24,150.00		31,165,600.10	
Depreciation										
As at Beginning of the Year	2,581,416.05		5,786,878.84		-		-		8,368,294.89	
Charge for the year	1,528,589.54		1,628,448.08		392,153.73				3,549,191.35	
On Disposal	(83,343.62)		-		-		-		(83,343.62)	
On Revaluation										
As at the End of the Year	4,026,661.97		7,415,326.92		392,153.73		-		11,834,142.62	
Net Book Value as at December 10	6,265,087.78		4,848,313.43		8,193,906.27		24,150.00		19,331,457.48	
Net Book Value as at December 09	7,378,207.69		3,332,813.46		-		24,150.00		10,735,171.15	
Accu. Depreciation	11,834,142.62		4,766,840.62		Net PPE				19,331,457.48	

